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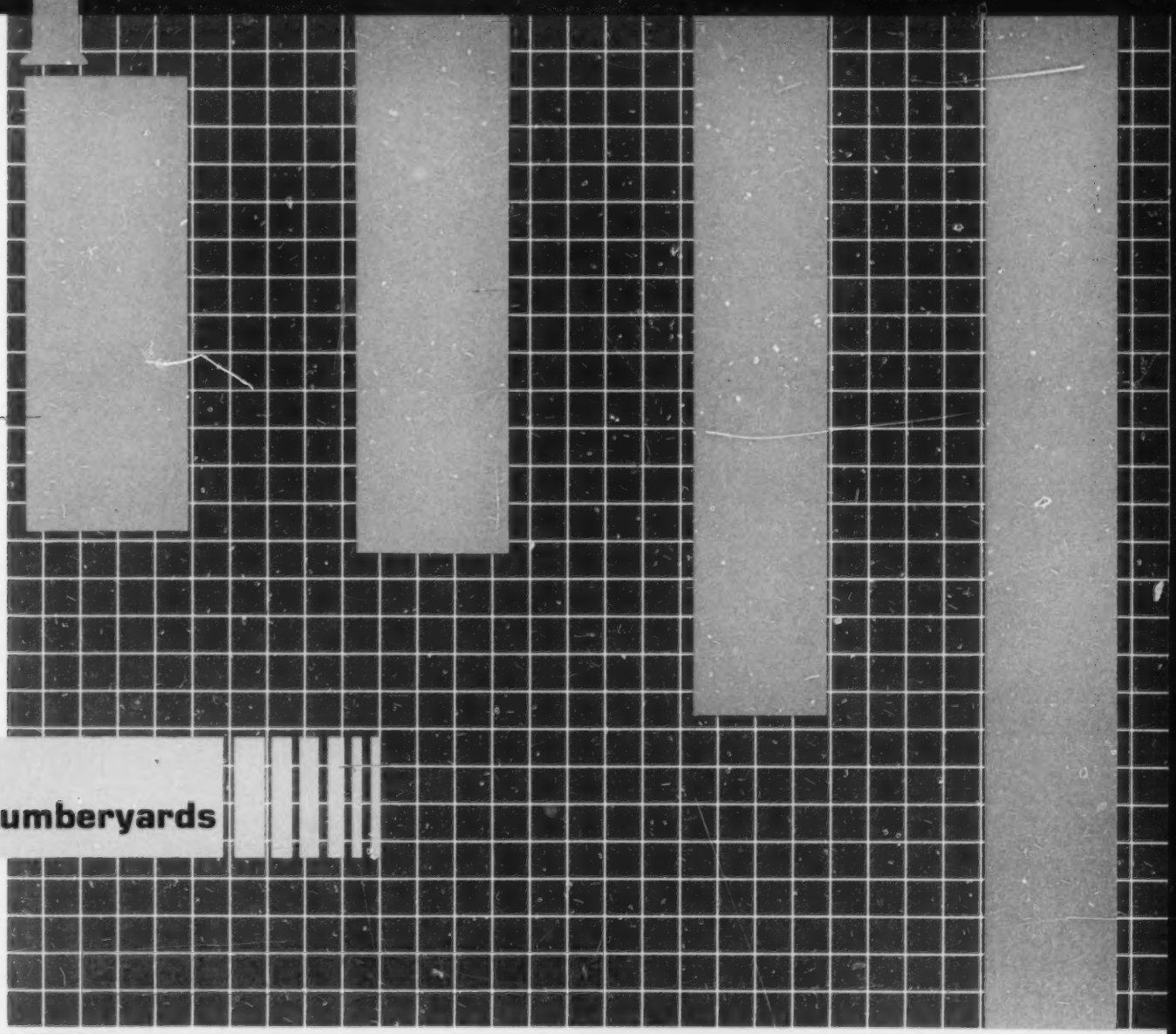
THE 1985 PROFIT REPORT



For DIY Lumberyards

NRHA National Retail Hardware Association

HCI home center institute

$20.00

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Introduction

THE PROFIT REPORT

The 1985 Profit Report presents financial operating data for the consumer oriented lumber and building materials industry. To be included a lumber/building materials outlet must actively pursue and derive a portion of total sales from the consumer do-it-yourself market. The outlet must have a retail sales floor and carry basic hardlines in addition to lumber/building materials. The Report is designed to fulfill several objectives; to assess the financial performance of the lumber/building materials industry in 1984; to provide comparative financial data so that retailers can measure their performance against other industry members; to provide a frame of reference for profit planning enabling lumber/building materials retailers to continually improve performance levels. Additionally the Report provides an excellent means for manufacturers, wholesalers and other interested parties to gain a better understanding of the retail hardware industry.

Three Major Sections

The Profit Report is divided into three major sections: Average Operating Results, Strategic Profit Model, and Departmental Sales. All results are presented as averages, computed by adding all data for a given item and then dividing by the total number of entries.

Average Operating Results includes data on sales, operating expenses, profits and financial performance. Income statement items are presented as a percentage of net sales and balance sheet items as a percentage of total assets.

The **Strategic Profit Model** combines the principal elements of a firm's operating statement and balance sheet into a single profit planning equation, evaluating operating performance on return on net worth.

In **Departmental Sales,** information is presented on the percent of stores handling major departments found in retail lumber/building materials outlets. The percent of net sales, sales floor, inventory and cost of goods sold are outlined both for handling firms only and for an average outlet profile.

Type of Outlet

Many factors influence a lumber/building materials outlet's cost of doing business. Therefore, Report data are shown in different ways in order that individual operators may make meaningful comparisons. Information contained in Average Operating Results is presented for the following store types:

—High and Low Profit
—Sales Volume Size
—Sales Floor Size
—Trade Area Size
—Outlet Location
—Number of Outlets
—Outlet Orientation

Methodology

The Profit Report is made possible only through the cooperation of the retail lumber/building materials men and women who provided detailed information on their operation. Questionnaires were sent to lumber/building materials operators the end of February. Two hundred and twenty-seven usable returns were received by June 15, 1985 in time for inclusion in this year's Report.

All dealer survey forms were edited for completeness by NRHA's Research Services Department Staff. Forms were coded for computer processing and **all individual firm identification removed.** The data was keypunched by a service bureau and then processed by our own data processing department.

As thanks for their contributive efforts, each lumber/building materials operator who submitted detailed financial information was provided a personalized computer analysis. This customized analysis compared each contributor's results with averages of all other stores in the same sales volume, sales floor and store location categories, as well as with the averages for the entire sample.

One Of A Series

The National Retail Hardware Association publishes detailed Financial Operating Reports for three types of hardlines retailers. Studies which are available in addition to the The Profit Report are The Management Report for retail hardware stores and The Bottom Line for home centers.

For Assistance

Assistance and aid in interpreting The 1985 Profit Report may be obtained from your regional Hardware Association.

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Highlights

Average 1984 sales for DIY lumber outlets increased 12.5 percent as reported by contributors to The 1985 Profit Report.

The average gross margin for lumber outlets dropped slightly from 26.17 percent in 1983 to 25.77 percent in 1984.

Net profit before taxes, profit on investment and stock turns all showed increases over 1983.

Type of Lumber Outlet	Net Sales ($)	Sales Increase Over 1983* (%)	Margin (%)	Net Profit On Sales (%)	Net Profit On Investment (%)	Stock Turns x
All Lumber Outlets	1,680,266	+12.50	25.77	3.60	15.99	4.56
Low Profit	1,548,824	+10.22	25.67	.27	1.65	4.34
High Profit	2,178,280	+16.93	26.07	6.82	22.32	5.02
Sales Volume Size						
Under $500,000	367,650	- 5.21	31.21	3.80	8.26	2.70
$500,000 to $999,999	791,183	+10.61	27.39	1.85	7.30	3.33
$1,000,000 to $1,999,999	1,357,474	+ 9.53	26.44	3.68	16.76	3.88
$2,000,000 or more	4,294,361	+16.31	24.71	3.95	19.15	5.75
Sales Floor Size						
Under 3,000 Sq. Ft.	1,545,022	+15.77	28.11	2.67	14.92	4.68
3,000 to 4,999 Sq. Ft.	1,411,970	+11.60	24.33	3.69	17.77	4.70
5,000 Sq. Ft. or more	1,613,957	+10.83	26.22	3.16	14.90	4.25
Trade Area Size						
M.S.A.	1,973,615	+12.91	27.70	3.77	17.81	5.21
Cities-10,000 to 50,000	1,700,705	+12.01	25.58	2.87	15.98	4.34
Towns Under 10,000	1,601,464	+12.67	25.31	3.94	15.56	4.52
Outlet Location:						
Downtown	1,766,243	+15.76	25.40	2.50	12.81	5.03
Suburban	1,817,333	+10.83	26.79	4.20	17.46	4.24
Rural	1,109,485	+10.45	23.59	2.71	13.24	4.72
Outlet Orientation:						
Consumer-Oriented	1,101,793	+ 6.40	26.54	2.61	10.96	3.50
Contractor-Oriented	2,706,386	+17.09	25.17	4.37	19.99	5.77

*As reported to us by contributing dealers.

Monthly Sales

Monthly sales for DIY lumber outlets increased in the first six months of 1984 as a percentage of sales over the first six months of 1983. May, June and July ranked as the peak months for sales.

	%		%		%
January	6.1	May	9.9	September	8.5
February	5.8	June	10.1	October	8.8
March	6.7	July	9.2	November	8.5
April	8.2	August	9.1	December	9.1

Average Operating Results

Income Statement Data

The Income Statement presents in a single format revenue derived from the sale of merchandise, and expenses incurred to produce these sales. All Financial Report Income Statement data are presented as a percent of Net Sales, computed by dividing each item by the Net Sales.

Net Sales Volume — The dollar amount of cash sales plus credit sales less total deductions.

Total Deductions — Goods returned, discounts allowed, sales taxes and other taxes paid to secure licenses.

Cost of Goods Sold — Inventory First of the Year plus Purchases plus Freight In plus Shop Labor (Non-Employee) minus Inventory End of the Year equals Cost of Goods Sold.

Margin Before Rebate or Dividend — The difference between Net Sales and the Cost of Goods Sold.

Margin After Rebate or Dividend — Net Sales minus the Cost of Goods Sold plus any Purchase Rebate or Patronage Dividend received by the dealer.

Salaries — Owners, Officers, Managers — The compensation including bonuses paid to owners, officers and store managers who work in the business.

Salaries/Wages — Other Employees — The compensation, wages and bonuses paid to all other employees.

Federal and State Payroll Taxes — Federal and State Withholding, Unemployment Compensation and FICA Taxes.

Group Insurance — All premiums paid to insure employees for health and accident protection.

Benefit Plans — The employers' share of cost for employee welfare/ benefit plans — life insurance, retirement, education, etc.

Heat, Light, Power and Water — All utility expenses incurred in the operation of the business.

Building Repairs and Maintenance — All charges for incidental repairs which keep the building in ordinarily efficient operating condition.

Leasing Expenses (Non-Occupancy) — All costs involved in leasing furniture, fixtures, machinery and office equipment, delivery equipment, etc.

Office Supplies and Postage — The cost of all materials used for the firm's accounting records.

Rent or Ownership in Real Estate — Rent is the amount paid for properties used in the business. Ownership includes current year taxes, insurance, depreciation and interest on mortgages on land and buildings used in the business.

Advertising and Promotion — Newspapers, circulars, calendars, radio and television spots, dealer's share of cooperative advertising and materials used in sales events.

Donations — All gifts given from the business operation to charity.

Telephone and Telegraph — For expenses incurred in the operation of the business.

Bad Debts — Uncollectable debts.

Delivery Expenses (Other than Wages) — All expenses incurred in the operation of delivery equipment; gas, tires, etc.

Insurance — Premiums paid to insure all assets against fire, theft, etc.

Taxes — All taxes on stock, fixtures, delivery equipment, etc.

Depreciation — All depreciation on furniture, fixtures, machinery and office equipment, delivery equipment, etc.

Credit Card Expense — Bank charges for processing credit card sales.

Interest — The amount of interest paid on borrowed money for all types of notes, loans.

Store and Shop Supplies — The costs of all supplies used in the operation of the store.

Legal and Accounting — The cost incurred for auditing, inventory count, collectors and legal consultation.

Computer Services — Any fees for outside computer services, plus all costs (excluding payroll) for establishing and maintaining a system in-house.

Dues and Subscriptions — Fees for memberships and subscriptions, and expenses for employee training.

Travel, Buying, Entertainment — All expenses incurred in business trips and the entertainment of guests.

Miscellaneous Services — All fees for services such as laundry, garbage disposal, snow removal, etc.

Unclassified — All expenses not classified under other headings.

Net Operating Profit — Return on sales before Other Income and Income Taxes, when expressed as a percent of Net Sales, indicates the percent return on each dollar of sales.

Other Income — Cash discounts earned, cash over or short, interest dividends, finance charges, commissions, tax allowances and rental and sundry income.

Net Profit (Before Income Tax) — The net return from the operation of the business.

Balance Sheet

The balance sheet is a statement of financial position at a given point in time; the Report presents year-ending balance sheets. The balance sheet equation is expressed as Assets equal Liabilities plus Net Worth.

Current Assets — Cash; notes receivable in the current year; accounts receivable (less reserve for doubtful accounts); merchandise inventories and other assets with a defined short-term life of one year — all prepaid expenses.

Investments — Assets with a long-term life such as stocks and bonds or real estate which is not needed to operate the business.

Fixed Assets — Assets with a long-term life which are needed to carry out a firm's normal business activities. The Financial Report includes only tangible assets at book value less accumulated depreciation. Included in addition to land, buildings and leasehold improvements are delivery equipment, machinery and office equipment, furniture, fixtures, etc.

Current Liabilities — All debts which are due within one year — accounts payable, current portion of notes payable, accrued payroll and other taxes, insurance, interest, etc.

Long-Term Liabilities — All debts, mortgages, and loans which mature or are due more than one year from the date of the balance sheet, deferred income taxes.

Net Worth — Total assets minus current and long-term liabilities equals net worth or the owner's equity in the business.

Financial Ratios

The financial position of a firm is determined from a review of its financial statements — the income statement and the balance sheet. The analysis of the financial performance of a firm views the interaction of the two financial statements through the measurement of proportions within the structure of the two statements. These proportions are tested by ratio analysis.

Profit On Investment

—Computed by dividing Net Profit Before Taxes by Net Worth; expressed as a percentage.

—Measures the return on the owner's invested capital and is the modern criterion for profitability. Today's hardware retailers should program their operations to achieve a rate of Return-On-Investment of at least 15% after taxes.

Active Owner's Return

—Computed by adding Owner's Salary to Net Profit Before Taxes and then dividing by Net Worth; expressed as a percentage.

—Measures the total return to owners and is applicable to proprietorships, partnerships and small corporations. This ratio allows comparison between operators with different philosophies regarding salaries and profits.

Current Asset Ratio

—Computed by dividing Total Current Assets by Total Current Liabilities; expressed in "times".

—Measures the ability to pay short-term Debts with Assets that may be converted to cash within a period of time corresponding to the maturity of the claims. The traditionally accepted minimum is 2 to 1 or 2.0 times.

Quick Asset Ratio

—Computed by dividing Current Assets minus Inventory by Current Liabilities; expressed in "times".

—Measures the ability to pay Current Debts from Current Assets without relying on the sale of inventory. The traditionally accepted minimum is 1.0 times.

Total Debt To Tangible Net Worth

—The Leverage Ratio, computed by dividing Total Liabilities by Tangible Net Worth; expressed as a percentage.

—Measures the owner's investment in comparison to financing provided by creditors and gives an indication of a firm's ability to acquire more debt.

Stock Turn Times

—Computed by dividing Cost of Goods Sold by Average Inventory at Cost (Beginning Inventory plus Year-end Inventory divided by two); expressed in "times".

—Measures the actual physical turnover of the inventory. A low rate of inventory turnover indicates the likelihood that a portion of the book value of the inventory includes obsolete or unusable items. A high ratio indicates efficiency in buying and inventory control; however too high a ratio may indicate the loss of potential sales due to inadquate stocking. Retail hardware store operators should achieve three turns or more per year.

Sales to Inventory

—Computed by dividing Net Sales by Average Inventory; expressed in "times".

—Measures merchandising efficiency and supplements the Stock Turn ratio in determining whether proper inventory control is achieved through scheduled and balanced buying.

Average Inventory Per Sq. Ft. of Sales Area

—Computed by dividing Average Inventory by Square Feet of Sales Area; expressed in dollar value of inventory at cost.

—A rough measure of merchandising efficiency.

Net Sales to Accounts Receivable

—Computed by dividing Net Sales by Accounts Receivable; expressed in "times".

—Measures the sales tied up in accounts receivable. This ratio is the most meaningful when compared to previous years' ratios, due to individual dealer policies of granting their own credit.

Net Sales to Total Assets

—Computed by dividing Net Sales by Total Assets; expressed in "times".

—Measures the use of all Assets to produce Sales. A high ratio may indicate over-trading on assets. A low ratio may indicate excessive investment resulting in idle capacity.

Net Sales to Net Worth

—Computed by dividing Net Sales by Tangible Net Worth; expressed in "times".

—Measures the extent to which sales are supported by invested capital.

Net Sales to Working Capital

—Computed by dividing Net Sales by Working Capital (Current Assets minus Current Liabilities); expressed in "times".

—Measures the demand on working capital to support the sales volume. A high ratio may limit the firm's ability to meet day to day debts.

Sales Per Sq. Ft. — Selling Area

—Computed by dividing Net Sales by Square Feet of Sales Area; expressed in retail sales dollars.

—Measures sales productivity.

Sales Per Sq. Ft. — Total Area

—Computed by dividing Net Sales by Square Feet of Total Area including warehouse and outside storage area; expressed in retail sales dollars.

—Measures sales productivity and indicates the amount of sales generated by each square foot of the total facility.

Sales Per Person Employed

—Computed by dividing Net Sales by the Total Number of Employees; expressed in retail sales dollars.

—Measures the efficiency of personnel in producing sales and is the most useful when compared to past performance.

Sales Per Customer

—Computed by dividing Net Sales by the Total Number of Customer Transactions; expressed in retail sales dollars.

—Measures the average sale per transaction. This ratio gives an indication of the store personnel's ability to make add-on sales.

All Outlets

Income Statement Data	All Outlets	Low Profit Outlets	High Profit Outlets
Number of Outlets	227	72	65
Net Sales Volume	$1,680,266	$1,548,824	$2,178,280
Current Year's Sales vs. Previous Year*	+12.50%	+10.22%	+16.93%
Gross Sales	101.87%	101.62%	101.55%
Less: Total Deductions	1.87	1.62	1.55
Net Sales	100.00%	100.00%	100.00%
Cost of Goods Sold	74.37	74.49	74.13
Margin Before Purchase Rebate or Patronage Dividend	25.63	25.51	25.87
Purchase Rebate or Patronage Dividend	.14	.16	.20
Margin After Purchase Rebate or Patronage Dividend	25.77	25.67	26.07
Payroll and Other Employee Expense			
Salaries — Owners/Officers/Managers	3.84	3.87	3.90
Salaries/Wages — Other Employees	8.23	8.86	7.26
Federal and State Payroll Taxes	1.01	1.13	.81
Group Insurance	.56	.58	.45
Benefit Plans	.47	.72	.30
Total Payroll and Other Employee Expense	14.11	15.16	12.72
Occupancy Expense			
Heat, Light, Power, Water	.45	.54	.37
Building Repairs and Maintenance	.34	.51	.25
Rent or Ownership in Real Estate**	1.89	3.23	1.20
Total Occupancy Expense	2.68	4.28	1.82
Other Costs of Doing Business			
Office Supplies and Postage	.44	.43	.37
Advertising and Promotion	.79	.93	.63
Donations	.06	.05	.09
Telephone and Telegraph	.25	.25	.21
Bad Debts	.52	.53	.50
Credit Card Expense (Bank Charges)	.02	.04	.01
Delivery (Other than Wages)	.87	.92	.75
Leasing Expenses (Non-Occupancy)	.04	.06	.02
Insurance (Other than Real Estate and Group)	.48	.54	.47
Taxes (Other than Real Estate and Payroll)	.29	.32	.34
Interest (Other than Real Estate)	1.13	1.41	.52
Depreciation (Other than Real Estate)	.67	.68	.77
Store and Shop Supplies	.13	.12	.09
Legal and Accounting	.26	.27	.22
Computer Services and Expenses (Other than Wages)	.08	.08	.03
Dues and Subscriptions	.07	.09	.06
Travel, Buying, Entertainment	.22	.27	.17
Miscellaneous Services (Laundry, Disposal, Etc.)	.05	.06	.04
Unclassified Expenses	.59	.25	1.09
Total Other Costs of Doing Business	6.96	7.30	6.38
Total Operating Expenses	23.75	26.74	20.92
Operating Profit or Loss	2.02	(1.07)	5.15
Other Income	1.58	1.34	1.67
Net Operating Profit or Loss (Before Income Taxes)	3.60	.27	6.82

*As reported to us by The Profit Report contributors.

**Ownership in Real Estate includes Taxes, Insurance, Depreciation and Interest for Mortgages on Land and Buildings.

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All Outlets

Balance Sheet Data	All Outlets	Low Profit Outlets	High Profit Outlets
Total Dollar Assets	$695,916	$640,397	$921,161
		% of Total Assets	
Assets			
Cash On Hand and In Bank	7.32	3.10	10.81
Notes and Installment Contracts Receivable	2.54	3.45	2.46
Accounts Receivable	26.04	22.62	27.00
Merchandise Inventory (End of Year)	39.98	42.06	35.72
Other Current Assets	1.58	1.62	1.48
Total Current Assets	77.46	72.85	77.47
Stocks and Bonds	1.41	1.68	1.49
Real Estate (Not Used In Business)	1.64	2.65	1.01
Other Investments	1.99	3.08	2.02
Total Investments	5.04	7.41	4.52
Land (Owned and Used In Business)	3.25	4.56	3.35
Buildings (Owned and Used In Business Less Depreciation)	6.43	7.22	5.94
Leasehold Improvements (Less Amortization Allowance)	.68	.92	.50
Furniture, Fixtures, Equipment (Owned and Used in Business Less Depreciation)	3.27	2.84	4.04
Delivery Equipment (Owned and Used in Business Less Depreciation)	2.73	1.89	3.28
Other Fixed Assets	1.14	2.31	.90
Total Fixed Assets	17.50	19.74	18.01
Total Assets	100.00%	100.00%	100.00%
Liabilities and Net Worth			
Accounts Payable	12.19	13.21	10.82
Current Portion of Notes Payable	7.10	11.30	3.51
Accrued Payroll Taxes	.64	.31	.38
Accrued Other Taxes	1.19	.75	1.65
Other Accrued Expenses	1.96	1.69	2.59
Other Current Liabilities	6.45	2.26	2.11
Total Current Liabilities	29.53	29.52	21.06
Notes Due Partners/Officers	1.85	9.09	(5.94)
Mortgage Payable	3.59	5.15	3.60
Long Term Debt	8.82	13.61	7.62
Other Long Term Liabilities	1.78	3.02	1.40
Total Long Term Liabilities	16.04	30.87	6.68
Total Liabilities	45.57	60.39	27.74
Net Worth	54.43	39.61	72.26
Total Liabilities and Net Worth	100.00%	100.00%	100.00%
Financial Performance			
Profit on Investment	15.99%	1.65%	22.32%
Active Owner's Return	33.01%	25.30%	35.07%
Current Asset Ratio	2.62x	2.47x	3.68x
Quick Asset Ratio	1.27x	1.04x	1.98x
Total Debt to Tangible Net Worth	83.69%	152.49%	38.38%
Stock Turn Times	4.56x	4.34x	5.02x
Sales to Inventory Ratio	6.13x	5.83x	6.78x
Average Inventory per Sq. Ft. Sales Area	$83.66	$81.10	$69.18
Net Sales to Accounts Receivable	9.27x	10.69x	8.76x
Net Sales to Total Assets	2.41x	2.42x	2.36x
Net Sales to Net Worth	4.44x	6.11x	3.27x
Net Sales to Net Working Capital	5.03x	5.58x	4.19x
Other Operating Data			
Incoming Freight — % of Purchases	.21%	.29%	.15%
Credit Sales — % of Total Gross Sales	76.14%	72.09%	79.61%
Consumer Sales — % of Total Gross Sales	54.36%	57.67%	44.78%
Selling Area — Square Feet	4,208	4,351	4,275
Sales Per Square Foot — Selling Area	$409.61	$399.07	$405.57
Total Area — Square Feet	17,598	24,309	16,921
Sales Per Square Foot — Total Area	$85.39	$57.58	$98.69
Sales Per Person Employed	$138,073	$118,168	$167,476
Sales Per Customer	$67.78	$101.87	$57.22

Sales Volume Size

Income Statement Data	Sales Under $500,000	$500,000 To $999,999	$1,000,000 To $1,999,999	Sales $2,000,000 Or More
Number of Outlets	40	60	77	50
Net Sales Volume	$367,650	$791,183	$1,357,474	$4,294,361
Current Year's Sales vs. Previous Year*	-5.21%	+10.61%	+ 9.53%	+16.31%
Gross Sales	101.28%	102.84%	101.27%	101.98%
Less: Total Deductions	1.28	2.84	1.27	1.98
Net Sales	100.00%	100.00%	100.00%	100.00%
Cost of Goods Sold	69.03	73.07	73.69	75.36
Margin Before Purchase Rebate or Patronage Dividend	30.97	26.93	26.31	24.64
Purchase Rebate or Patronage Dividend	.24	.46	.13	.07
Margin After Purchase Rebate or Patronage Dividend	31.21	27.39	26.44	24.71
Payroll and Other Employee Expense				
Salaries — Owners/Officers/Managers	6.10	4.63	3.91	3.47
Salaries/Wages — Other Employees	9.35	9.26	8.81	7.66
Federal and State Payroll Taxes	1.38	1.40	1.12	.85
Group Insurance	1.20	.57	.66	.46
Benefit Plans	.35	.33	.34	.58
Total Payroll and Other Employee Expense	18.38	16.19	14.84	13.02
Occupancy Expense				
Heat, Light, Power, Water	.91	.59	.49	.36
Building Repairs and Maintenance	.29	.35	.27	.37
Rent or Ownership in Real Estate**	2.35	2.45	1.58	1.87
Total Occupancy Expense	3.55	3.39	2.34	2.60
Other Costs of Doing Business				
Office Supplies and Postage	.61	.61	.45	.39
Advertising and Promotion	1.31	1.12	.85	.66
Donations	.06	.04	.05	.08
Telephone and Telegraph	.36	.34	.34	.19
Bad Debts	.22	.47	.45	.59
Credit Card Expense (Bank Charges)	.01	.09	.02	.01
Delivery (Other Than Wages)	.84	.92	.95	.81
Leasing Expenses (Non-Occupancy)	.05	.10	.03	.02
Insurance (Other Than Real Estate and Group)	.69	.61	.52	.42
Taxes (Other Than Real Estate and Payroll)	.27	.52	.32	.23
Interest (Other Than Mortgages)	.86	1.19	1.42	1.00
Depreciation (Other than Real Estate)	.94	.82	.66	.62
Store and Shop Supplies	.33	.20	.16	.08
Legal and Accounting	.39	.27	.29	.24
Computer Services and Expenses (Other Than Wages)	—	.04	.12	.07
Dues and Subscriptions	.18	.09	.06	.06
Travel, Buying, Entertainment	.41	.17	.22	.21
Miscellaneous Services (Laundry, Disposal, etc.)	.01	.08	.02	.05
Unclassified Expenses	.31	.30	.30	.81
Total Other Costs of Doing Business	7.85	7.98	7.23	6.54
Total Operating Expenses	29.78	27.56	24.41	22.16
Operating Profit or Loss	1.43	(.17)	2.03	2.55
Other Income	2.37	2.02	1.65	1.40
Net Operating Profit or Loss (Before Income Taxes)	3.80	1.85	3.68	3.95

*As reported to us by The Profit Report contributors.

**Ownership in Real Estate includes Taxes, Insurance, Depreciation and Interest for Mortgages on Land and Buildings.

Sales Volume Size

Balance Sheet Data	Sales Under $500,000	$500,000 To $999,999	$1,000,000 To $1,999,999	Sales $2,000,000 Or More
Total Dollar Assets	$245,475	$388,112	$599,856	$1,573,568
		% of Total Assets		
Assets				
Cash On Hand and In Bank	14.64	4.70	7.15	7.29
Notes and Installment Contracts Receivable	.69	4.05	1.17	3.13
Accounts Receivable	12.82	18.46	25.66	30.15
Merchandise Inventory (End of Year)	39.51	44.39	42.97	37.01
Other Current Assets	1.07	2.07	1.88	1.32
Total Current Assets	68.73	73.67	78.83	78.90
Stocks and Bonds	3.80	3.00	1.11	.81
Real Estate (Not Used in Business)	5.83	1.34	.74	1.73
Other Investments	2.21	2.34	3.14	1.19
Total Investments	11.84	6.68	4.99	3.73
Land (Owned and Used in Business)	2.64	5.37	2.32	3.25
Buildings (Owned and Used in Business Less Depreciation)	10.86	6.07	5.22	6.69
Leasehold Improvements (Less Amortization Allowance)	.04	.53	.99	.62
Furniture, Fixtures, Equipment (Owned and Used in Business Less Depreciation)	2.53	3.11	3.24	3.42
Delivery Equipment (Owned and Used in Business Less Depreciation)	3.15	2.61	2.36	2.92
Other Fixed Assets	.21	1.96	2.05	.47
Total Fixed Assets	19.43	19.65	16.18	17.37
Total Assets	100.00%	100.00%	100.00%	100.00%
Liabilities And Net Worth				
Accounts Payable	6.41	11.03	11.26	13.79
Current Portion of Notes Payable	5.22	6.82	4.86	8.74
Accrued Payroll Taxes	.34	.35	1.31	.36
Accrued Other Taxes	.81	1.07	.99	1.38
Other Accrued Expenses	.29	1.33	1.57	2.58
Other Current Liabilities	1.10	1.57	15.35	3.34
Total Current Liabilities	14.17	22.17	35.34	30.19
Notes Due Partners/Officers	5.80	9.64	2.81	(1.52)
Mortgage Payable	1.98	7.49	2.84	3.07
Long Term Debt	8.47	8.61	5.40	10.94
Other Long Term Liabilities	.65	.35	3.96	1.07
Total Long Term Liabilities	16.90	26.09	15.01	13.56
Total Liabilities	31.07	48.26	50.35	43.75
Net Worth	68.93	51.74	49.65	56.25
Total Liabilities And Net Worth	100.00%	100.00%	100.00%	100.00%
Financial Performance				
Profit on Investment	8.26%	7.30%	16.76%	19.15%
Active Owner's Return	21.51%	25.52%	34.59%	35.98%
Current Asset Ratio	4.85x	3.32x	2.23x	2.61x
Quick Asset Ratio	2.06x	1.32x	1.01x	1.39x
Total Debt to Tangible Net Worth	45.07%	93.25%	101.46%	77.79%
Stock Turn Times	2.70x	3.33x	3.88x	5.75x
Sales to Inventory Ratio	3.91x	4.56x	5.26x	7.63x
Average Inventory per Sq. Ft. Sales Area	$47.73	$53.98	$89.99	$118.66
Net Sales to Accounts Receivable	11.68x	11.04x	8.82x	9.05x
Net Sales to Total Assets	1.50x	2.04x	2.26x	2.73x
Net Sales to Net Worth	2.17x	3.94x	4.56x	4.85x
Net Sales to Net Working Capital	2.75x	3.96x	5.21x	5.60x
Other Operating Data				
Incoming Freight — % of Purchases	.25%	.33%	.27%	.16%
Credit Sales — % of Total Gross Sales	74.63%	67.21%	70.96%	80.28%
Consumer Sales — % of Total Gross Sales	75.08%	61.51%	49.68%	37.70%
Selling Area — Square Feet	3,523	4,326	4,445	4,289
Sales Per Square Foot — Selling Area	$96.48	$185.69	$338.54	$830.58
Total Area — Square Feet	14,289	12,759	11,599	36,975
Sales Per Square Foot — Total Area	$24.28	$55.89	$123.51	$95.28
Sales Per Person Employed	$80,299	$100,080	$116,916	$179,728
Sales Per Customer	$26.00	$68.54	$38.71	$170.93

Sales Floor Size

Income Statement Data	Sales Area Under 3,000 Sq. Ft.	3,000 Sq. Ft. To 4,999 Sq. Ft.	Sales Area 5,000 Sq. Ft. Or More
Number of Outlets	37	73	84
Net Sales Volume	$1,545,022	$1,411,970	$1,613,957
Current Year's Sales vs. Previous Year*	+15.77%	+11.60%	+10.83%
Gross Sales	101.36%	102.14%	101.86%
Less: Total Deductions	1.36	2.14	1.86
Net Sales	100.00%	100.00%	100.00%
Cost of Goods Sold	73.93	75.77	74.04
Margin Before Purchase Rebate or Patronage Dividend	26.07	24.23	25.96
Purchase Rebate or Patronage Dividend	.04	.10	.26
Margin After Purchase Rebate Or Patronage Dividend	26.11	24.33	26.22
Payroll and Other Employee Expense			
Salaries — Owners/Officers/Managers	2.90	3.81	4.03
Salaries — Other Employees	7.37	8.00	8.71
Federal and State Payroll Taxes	.90	1.09	1.04
Group Insurance	.22	.66	.61
Benefit Plans	.83	.38	.47
Total Payroll and Other Employee Expense	12.22	13.94	14.86
Occupancy Expense			
Heat, Light, Power, Water	.41	.46	.52
Building Repairs and Maintenance	.56	.25	.41
Rent or Ownership in Real Estate**	4.17	1.40	1.72
Total Occupancy Expense	5.14	2.11	2.65
Other Costs of Doing Business			
Office Supplies and Postage	.34	.51	.48
Advertising and Promotion	.70	.83	.99
Donations	.07	.03	.05
Telephone and Telegraph	.22	.19	.32
Bad Debts	.66	.42	.56
Credit Card Expense (Bank Charges)	.03	.03	.02
Delivery (Other Than Wages)	.85	.79	.93
Leasing Expenses (Non-Occupancy)	.04	.03	.05
Insurance (Other Than Real Estate and Group)	.67	.47	.40
Taxes (Other Than Real Estate and Payroll)	.44	.26	.33
Interest (Other Than Real Estate)	1.25	.93	1.49
Depreciation (Other Than Real Estate)	.59	.67	.65
Store and Shop Supplies	.14	.10	.17
Legal and Accounting	.23	.21	.30
Computer Services and Expenses (Other Than Wages)	.07	.06	.11
Dues and Subscriptions	.09	.07	.06
Travel, Buying, Entertainment	.31	.20	.22
Miscellaneous Services (Laundry, Disposal, etc.)	.02	.02	.05
Unclassified Expenses	.31	.56	.31
Total Other Costs of Doing Business	7.03	6.38	7.49
Total Operating Expenses	24.39	22.43	25.00
Operating Profit or Loss	1.72	1.90	1.22
Other Income	.95	1.79	1.94
Net Operating Profit or Loss (Before Income Taxes)	2.67	3.69	3.16

*As reported to us by The Profit Report contributors.

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Sales Floor Size

Balance Sheet Data	Sales Area Under 3,000 Sq. Ft.	3,000 Sq. Ft. To 4,999 Sq. Ft.	Sales Area 5,000 Sq. Ft. Or More
Total Dollar Assets	$632,862	$551,459	$714,636
		% of Total Assets	
Assets			
Cash On Hand and In Bank	5.51	8.69	8.72
Notes and Installment Contracts Receivable	3.76	1.45	2.59
Accounts Receivable	23.19	25.29	24.32
Merchandise Inventory (End of Year)	39.70	41.45	39.58
Other Current Assets	1.70	1.92	1.66
Total Current Assets	73.86	78.80	76.87
Stocks and Bonds	1.78	.98	1.64
Real Estate (Not Used in Business)	5.77	.06	1.17
Other Investments	1.55	.92	2.96
Total Investments	9.10	1.96	5.77
Land (Owned and Used in Business)	5.26	4.07	2.74
Buildings (Owned and Used in Business Less Depreciation)	5.23	6.27	6.60
Leasehold Improvements (Less Depreciation)	.46	.1.27	.65
Furniture, Fixtures, Equipment (Owned and Used in Business Less Depreciation)	3.76	4.13	2 95
Delivery Equipment (Owned and Used in Business Less Depreciation	2.14	2.90	2.56
Other Fixed Assets	.19	.60	1.86
Total Fixed Assets	17.04	19.24	17.36
Total Assets	100.00%	100.00%	100.00%
Liabilities And Net Worth			
Accounts Payable	10.97	12.70	12.75
Current Portion of Notes Payable	4.24	7.47	8.42
Accrued Payroll Taxes	.41	.43	.98
Accrued Other Taxes	1.15	1.43	.83
Other Accrued Expenses	1.20	2.79	1.38
Other Current Liabilities	2.19	3.61	11.40
Total Current Liabilities	20.16	28.43	35.76
Notes Due Partners/Officers	10.09	5.41	4.70
Mortgage Payable	2.07	1.85	3.73
Long Term Debt	21.72	9.64	5.74
Other Long Term Liabilities	2.25	1.53	2.24
Total Long Term Liabilities	36.13	18.43	16.41
Total Liabilities	56.29	46.86	52.17
Net Worth	43.71	53.14	47.83
Total Liabilities And Net Worth	100.00%	100.00%	100.00%
Financial Performance			
Profit on Investment	14.92%	17.77%	14.90%
Active Owner's Return	31.09%	36.10%	33.92%
Current Asset Ratio	3.66x	2.77x	2.15x
Quick Asset Ratio	1.69x	1.31x	1.04x
Total Debt to Tangible Net Worth	128.77%	88.20%	109.08%
Stock Turn Times	4.68x	4.70x	4.25x
Sales to Inventory Ratio	6.33x	6.20x	5.75x
Average Inventory per Sq. Ft. Sales Area	$144.62	$92.19	$67.88
Net Sales to Accounts Receivable	10.53x	10.12x	9.29x
Net Sales to Total Assets	2.44x	2.56x	2.26x
Net Sales to Net Worth	5.59x	4.82x	4.72x
Net Sales to Net Working Capital	4.55x	5.08x	5.49x
Other Operating Data			
Incoming Freight — % of Purchases	.47%	.27%	.16%
Credit Sales — % of Total Gross Sales	82.45%	74.36%	71.08%
Consumer Sales — % of Total Gross Sales	50.97%	54.67%	58.81%
Selling Area — Square Feet	1,725	3,669	5,803
Sales Per Square Foot — Selling Area	$787.24	$491.72	$298.26
Total Area — Square Feet	10,352	24,840	16,224
Sales Per Square Foot — Total Area	$128.79	$52.50	$99.79
Sales Per Person Employed	$140,434	$146,619	$115,298
Sales Per Customer	$72.48	$86.67	$57.38

Outlet Location I

Income Statement Data	Downtown	Suburban	Rural
Number of Outlets	56	112	48
Net Sales Volume	$1,766,243	$1,817,333	$1,109,485
Current Year's Sales vs. Previous Year*	+15.76%	+10.83%	+10.45%
Gross Sales	101.54%	102.02%	102.56%
Less: Total Deductions	1.54	2.02	2.56
Net Sales	100.00%	100.00%	100.00%
Cost of Goods Sold	74.75	73.32	76.46
Margin Before Purchase Rebate or Patronage Dividend	25.25	26.68	23.54
Purchase Rebate or Patronage Dividend	.15	.11	.05
Margin After Purchase Rebate or Patronage Dividend	25.40	26.79	23.59
Payroll and Other Employee Expense			
Salaries — Owners/Officers/Managers	3.52	3.90	3.98
Salaries/Wages — Other Employees	8.05	8.79	7.14
Federal and State Payroll Taxes	.92	1.05	1.13
Group Insurance	.48	.57	.64
Benefit Plans	.63	.41	.45
Total Payroll and Other Employee Expense	13.60	14.72	13.34
Occupancy Expense			
Heat, Light, Power, Water	.49	.45	.44
Building Repairs and Maintenance	.55	.26	.29
Rent or Ownership in Real Estate**	3.32	1.40	1.45
Total Occupancy Expense	4.36	2.11	2.18
Other Costs of Doing Business			
Advertising and Promotion	.80	.78	.86
Insurance (Other Than Real Estate and Group)	.46	.49	.58
Taxes (Other Than Real Estate and Payroll)	.39	.27	.22
Interest (Other Than Real Estate)	.97	1.31	1.08
Depreciation (Other Than Real Estate)	.49	.76	.70
All Other Expenses	3.32	3.66	3.60
Total Other Costs of Doing Business	6.43	7.27	7.04
Total Operating Expenses	24.39	24.10	22.56
Operating Profit or Loss	1.01	2.69	1.03
Other Income	1.49	1.51	1.68
Net Operating Profit or Loss (Before Income Taxes)	2.50	4.20	2.71
Financial Performance			
Profit on Investment	12.81%	17.46%	13.24%
Active Owner's Return	30.82%	33.70%	32.73%
Current Asset Ratio	2.81x	2.43x	2.72x
Quick Asset Ratio	1.37x	1.15x	1.30x
Total Debt to Tangible Net Worth	106.24%	76.06%	97.09%
Stock Turn Times	5.03x	4.24x	4.72x
Sales to Inventory Ratio	6.73x	5.78x	6.17x
Average Inventory per Sq. Ft. Sales Area	$74.15	$91.63	$73.44
Net Sales to Accounts Receivable	10.78x	8.56x	10.63x
Net Sales to Total Assets	2.48x	2.37x	2.48x
Net Sales to Net Worth	5.12x	4.17x	4.90x
Net Sales to Net Working Capital	5.26x	5.08x	5.12x
Other Operating Data			
Incoming Freight — % of Purchases	.45%	.13%	.15%
Credit Sales — % Total Gross Sales	74.37%	78.11%	72.57%
Consumer Sales — % of Total Gross Sales	50.47%	54.21%	61.44%
Selling Area — Square Feet	4,169	4,396	3,670
Sales Per Square Foot — Selling Area	$405.45	$400.71	$370.06
Total Area — Square Feet	16,240	19,882	13,196
Sales Per Square Foot — Total Area	$105.04	$68.19	$104.16
Sales Per Person Employed	$133,954	$137,459	$136,035
Sales Per Customer	$71.30	$59.32	$79.16

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Outlet Location II

Income Statement Data	Shopping Centers	Free-Standing: No Stores Adjacent	Free-Standing: Stores Nearby
Number of Outlets	24	117	76
Net Sales Volume	$962,483	$1,579,658	$1,897,113
Current Year's Sales vs. Previous Year*	+ .43%	+11.02%	+17.49%
Gross Sales	103.00%	101.67%	102.08%
Less: Total Deductions	3.00	1.67	2.08
Net Sales	100.00%	100.00%	100.00%
Cost of Goods Sold	74.88	74.79	74.05
Margin Before Purchase Rebate or Patronage Dividend	25.12	25.21	25.95
Purchase Rebate or Patronage Dividend	.05	.18	.13
Margin After Purchase Rebate or Patronage Dividend	25.17	25.39	26.08
Payroll and Other Employee Expense			
Salaries — Owners/Officers/Managers	4.66	3.60	3.14
Salaries/Wages — Other Employees	8.46	8.91	7.85
Federal and State Payroll Taxes	1.08	1.08	.98
Group Insurance	.98	.54	.51
Benefit Plans	.60	.40	.64
Total Payroll and Other Employee Expense	15.72	14.53	13.12
Occupancy Expense			
Heat, Light, Power, Water	.55	.47	.45
Building Repairs and Maintenance	.23	.34	.38
Rent or Ownership in Real Estate**	1.42	1.47	2.60
Total Occupancy Expense	2.20	2.28	3.43
Other Costs of Doing Business			
Advertising and Promotion	1.01	1.02	.54
Insurance (Other Than Real Estate and Group)	.44	.54	.42
Taxes (Other Than Real Estate and Payroll)	.15	.36	.24
Interest (Other Than Real Estate)	1.57	1.19	1.17
Depreciation (Other Than Real Estate)	.73	.68	.65
All Other Expenses	3.12	3.46	3.99
Total Other Costs of Doing Business	7.02	7.25	7.01
Total Operating Expenses	24.94	24.06	23.56
Operating Profit or Loss	.23	1.33	2.52
Other Income	2.40	1.79	1.32
Net Operating Profit or Loss (Before Income Taxes)	2.63	3.12	3.84
Financial Performance			
Profit on Investment	9.95%	15.07%	16.51%
Active Owner's Return	27.58%	32.41%	29.95%
Current Asset Ratio	2.16x	2.59x	2.53x
Quick Asset Ratio	1.02x	1.19x	1.20x
Total Debt to Tangible Net Worth	80.79%	102.19%	70.66%
Stock Turn Times	4.05x	4.45x	4.59x
Sales to Inventory Ratio	5.41x	5.95x	6.20x
Average Inventory per Sq. Ft. Sales Area	$108.77	$73.87	$103.24
Net Sales to Accounts Receivable	9.54x	10.49x	8.88x
Net Sales to Total Assets	2.09x	2.39x	2.51x
Net Sales to Net Worth	3.78x	4.83x	4.29x
Net Sales to Net Working Capital	5.10x	5.16x	5.28x
Other Operating Data			
Incoming Freight — % of Purchases	.03%	.21%	.28%
Credit Sales — % Total Gross Sales	77.64%	67.96%	81.89%
Consumer Sales — % of Total Gross Sales	71.43%	53.47%	50.84%
Selling Area — Square Feet	3,624	4,196	4,474
Sales Per Square Foot — Selling Area	$395.90	$402.93	$434.46
Total Area — Square Feet	13,736	21,043	13,498
Sales Per Square Foot — Total Area	$159.69	$72.11	$122.44
Sales Per Person Employed	$133,524	$130,782	$138,786
Sales Per Customer	$60.91	$63.47	$78.45

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Trade Area Size

Income Statement Data	M.S.A.+	Cities 10,000 To 50,000 Pop.	Towns Under 10,000 Pop.
Number of Outlets	31	64	132
Net Sales Volume	$1,973,615	$1,700,705	$1,601,464
Current Year's Sales vs. Previous Year*	+12.91%	+12.01%	+12.67%
Gross Sales	100.57%	101.84%	102.25%
Less: Total Deductions	.57	1.84	2.25
Net Sales	100.00%	100.00%	100.00%
Cost of Goods Sold	72.55	74.54	74.82
Margin Before Purchase Rebate or Patronage Dividend	27.45	25.46	25.18
Purchase Rebate or Patronage Dividend	.25	.12	.13
Margin After Purchase Rebate or Patronage Dividend	27.70	25.58	25.31
Payroll and Other Employee Expense			
Salaries — Owners/Officers/Managers	4.80	3.17	3.90
Salaries/Wages — Other Employees	8.80	8.41	8.02
Federal and State Payroll Taxes	1.07	1.06	.97
Group Insurance	.49	.56	.57
Benefit Plans	.80	.50	.37
Total Payroll and Other Employee Expense	15.96	13.70	13.83
Occupancy Expense			
Heat, Light, Power, Water	.51	.48	.41
Building Repairs and Maintenance	.47	.41	.26
Rent or Ownership in Real Estate**	1.35	3.12	1.38
Total Occupancy Expense	2.33	4.01	2.05
Other Costs of Doing Business			
Advertising and Promotion	1.10	.76	.72
Insurance (Other Than Real Estate or Group)	.46	.38	.54
Taxes (Other Than Real Estate or Payroll)	.31	.28	.29
Interest (Other Than Real Estate)	1.00	1.62	.92
Depreciation (Other Than Real Estate)	.69	.51	.75
All Other Expenses	3.65	3.36	3.69
Total Other Costs of Doing Business	7.21	6.91	6.91
Total Operating Expenses	25.50	24.62	22.79
Operating Profit or Loss	2.20	.96	2.52
Other Income	1.57	1.91	1.42
Net Operating Profit or Loss (Before Income Taxes)	3.77	2.87	3.94
Financial Performance			
Profit on Investment	17.81%	15.98%	15.56%
Active Owner's Return	40.48%	33.62%	30.97%
Current Asset Ratio	2.28x	2.26x	2.99x
Quick Asset Ratio	1.19x	1.05x	1.44x
Total Debt to Tangible Net Worth	88.51%	134.02%	64.17%
Stock Turn Times	5.21x	4.34x	4.52x
Sales to Inventory Ratio	7.18x	5.82x	6.04x
Average Inventory per Sq. Ft. Sales Area	$75.24	$135.23	$68.83
Net Sales to Accounts Receivable	9.10x	10.23x	8.89x
Net Sales to Total Assets	2.51x	2.38x	2.41x
Net Sales to Net Worth	4.73x	5.57x	3.95x
Net Sales to Net Working Capital	5.95x	5.57x	4.60x
Other Operating Data			
Incoming Freight — % of Purchases	.10%	.30%	.20%
Credit Sales — % of Total Gross Sales	79.95%	75.90%	75.41%
Consumer Sales — % of Total Gross Sales	43.81%	53.62%	57.22%
Selling Area — Square Feet	4,522	4,312	4,076
Sales Per Square Foot — Selling Area	$464.76	$516.23	$357.68
Total Area — Square Feet	42,830	11,029	14,564
Sales Per Square Foot — Total Area	$38.36	$167.11	$100.93
Sales Per Person Employed	$146,727	$124,649	$144,068
Sales Per Customer	$90.89	$61.42	$64.59

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†Metropolitan Statistical Area

Number of Outlets

Balance Sheet Data	Single Store Outlets	2 To 4 Outlets	5 Or More Outlets
Number of Outlets	149	42	36
Net Sales Volume	$1,708,619	$2,345,526	$786,780
Current Year's Sales vs. Previous Year*	+11.79%	+19.07%	+3.18%
Gross Sales	102.44%	100.85%	100.24%
Less: Total Deductions	2.44	.85	.24
Net Sales	100.00%	100.00%	100.00%
Cost of Goods Sold	74.68	73.69	74.07
Margin Before Purchase Rebate or Patronage Dividend	25.32	26.31	25.93
Purchase Rebate or Patronage Dividend	.14	.19	—
Margin After Purchase Rebate or Patronage Dividend	25.46	26.50	25.93
Payroll and Other Employee Expense			
Salaries — Owners/Officers/Managers	3.62	4.16	4.62
Salaries/Wages — Other Employees	8.46	7.71	8.04
Federal and State Payroll Taxes	1.01	.97	1.17
Group Insurance	.53	.46	1.15
Benefit Plans	.58	.30	.16
Total Payroll and Other Employee Expense	14.20	13.60	15.14
Occupancy Expense			
Heat, Light, Power, Water	.46	.35	.64
Building Repairs and Maintenance	.31	.46	.20
Rent or Ownership in Real Estate**	1.43	3.04	1.89
Total Occupancy Expense	2.20	3.85	2.73
Other Costs of Doing Business			
Advertising and Promotion	.94	.49	.50
Insurance (Other Than Real Estate or Group)	.54	.40	.20
Taxes (Other Than Real Estate or Payroll)	.36	.18	.01
Interest (Other Than Real Estate)	1.08	.91	2.42
Depreciation (Other Than Real Estate)	.68	.69	.51
All Other Expenses	3.49	3.82	3.74
Total Other Costs of Doing Business	7.09	6.49	7.38
Total Operating Expenses	23.49	23.94	25.25
Operating Profit or Loss	1.97	2.56	.68
Other Income	1.73	.99	2.32
Net Operating Profit or Loss (Before Income Taxes)	3.70	3.55	3.00
Financial Performance			
Profit on Investment	16.41%	14.76%	17.10%
Active Owner's Return	32.49%	32.07%	43.48%
Current Asset Ratio	2.75x	3.34x	1.41x
Quick Asset Ratio	1.31x	1.67x	.69x
Total Debt to Tangible Net Worth	86.35%	58.03%	175.49%
Stock Turn Times	4.54x	5.12x	3.42x
Sales to Inventory Ratio	6.08x	6.95x	4.61x
Average Inventory Per Sq. Ft. Sales Area	$66.78	$154.37	$736.55
Net Sales to Accounts Receivable	9.87x	8.73x	6.98x
Net Sales to Total Assets	2.38x	2.63x	2.07x
Net Sales to Net Worth	4.44x	4.16x	5.71x
Net Sales to Net Working Capital	4.93x	4.77x	8.19x
Other Operating Data			
Incoming Freight — % of Purchases	.17%	.38%	—%
Credit Sales — % of Total Gross Sales	71.10%	85.45%	77.72%
Consumer Sales — % of Total Gross Sales	51.25%	46.33%	75.00%
Selling Area — Square Feet	4,100	4,740	4,167
Sales per Square Foot — Selling Area	$412.96	$410.72	$188.81
Total Area — Square Feet	20,732	12,512	11,945
Sales per Square Foot — Total Area	$81.68	$152.21	$65.87
Sales per Person Employed	$136,065	$165,926	$97,669
Sales per Customer	$69.57	$209.46	$37.83

*As reported to us by The Profit Report contributors.

**Ownership in Real Estate includes Taxes, Insurance, Depreciation and Interest for Mortgages on Land and Buildings.

Outlet Orientation

Income Statement Data	Contractor Oriented	Consumer Oriented
Number of Outlets	83	135
Net Sales Volume	$2,706,386	$1,101,793
Current Year's Sales vs. Previous Year*	+17.09%	+ 6.40%
Gross Sales	102.11%	$101.50%
Less: Total Deductions	2.11	1.50
Net Sales	100.00%	100.00%
Cost of Goods Sold	74.94	73.62
Margin Before Purchase Rebate or Patronage Dividend	25.06	26.38
Purchase Rebate or Patronage Dividend	.11	.16
Margin After Purchase Rebate or Patronage Dividend	25.17	26.54
Payroll and Other Employee Expense		
Salaries — Owners/Officers/Managers	3.70	4.05
Salaries/Wages — Other Employees	7.42	9.34
Federal and State Payroll Taxes	.85	1.24
Group Insurance	.48	.65
Benefit Plans	.57	.32
Total Payroll and Other Employee Expense	13.02	15.60
Occupancy Expense		
Heat, Light, Power, Water	.36	.56
Building Repairs and Maintenance	.32	.38
Rent or Ownership in Real Estate**	1.94	1.77
Total Occupancy Expense	2.62	2.71
Other Costs of Doing Business		
Advertising and Promotion	.58	1.09
Insurance (Other Than Real Estate or Group)	.47	.50
Taxes (Other Than Real Estate or Payroll)	.29	.27
Interest (Other Than Real Estate)	.84	1.56
Depreciation (Other Than Real Estate)	.65	.69
All Other Expenses	3.65	3.44
Total Other Costs of Doing Business	6.48	7.55
Total Operating Expenses	22.12	25.86
Operating Profit or Loss	3.05	.68
Other Income	1.32	1.93
Net Operating Profit or Loss (Before Income Taxes)	4.37	2.61
Financial Performance		
Profit on Investment	19.99%	10.96%
Active Owner's Return	36.90%	28.01%
Current Asset Ratio	3.04x	2.26x
Quick Asset Ratio	1.64x	.95x
Total Debt to Tangible Net Worth	66.72%	104.48%
Stock Turn Times	5.77x	3.50x
Sales to Inventory Ratio	7.69x	4.76x
Average Inventory Per Sq. Ft. Sales Area	$85.18	$83.84
Net Sales to Accounts Receivable	8.79x	10.00x
Net Sales to Total Assets	2.74x	2.06x
Net Sales to Net Worth	4.57x	4.21x
Net Sales to Net Working Capital	5.15x	4.88x
Other Operating Data		
Incoming Freight — % of Purchases	.24%	.17%
Credit Sales — % of Total Gross Sales	82.59%	67.21%
Consumer Sales — % of Total Gross Sales	27.99%	70.57%
Selling Area — Square Feet	3,863	4,393
Sales per Square Foot — Selling Area	$597.52	$278.42
Total Area — Square Feet	25,202	13,389
Sales per Square Foot — Total Area	$90.59	$79.10
Sales per Person Employed	$169,250	$109,182
Sales per Customer	$128.44	$43.27

*As reported to us by The Profit Report contributors.

**Ownership in Real Estate includes Taxes, Insurance, Depreciation and Interest for Mortgages on Land and Buildings.

Strategic Profit Model

The Strategic Profit Model can be an excellent management tool for lumber/buiding materials retailers. The Model combines the principal elements of a firm's operating statement and balance sheet into a single profit planning equation, evaluating operating performance on the most important criteria – Return on Net Worth.

The Strategic Profit Model clearly identifies, through the use of financial ratio analysis, the three major operational areas that determine the rate of return on net worth; profit margin, asset turnover and leverage.

Several elements that can be controlled by management to improve the level of operational performance are:

Profit Margin

Sales — Increase sales through better displays and advertising, more promotions, addition of new lines, etc.

Cost of Goods Sold — Improve Gross Margin through variable pricing, efficient buying, etc.

Expenses — Trimming expenses is difficult in view of today's high inflation, labor costs, occupancy expense, etc., however, carefully review each item of expense for areas of cost savings.

Other Income — Take advantage of cash discounts, earnings from revolving or installment credit programs and other investments such as stock ownership.

Asset Turnover

Inventory — Decrease inventory level through a careful review of the levels of all items, trim slow moving items, eliminate obsolete items.

Accounts Receivable — Review status of accounts; if excessively high without the use of a finance charge, customers are operating on the firm's money.

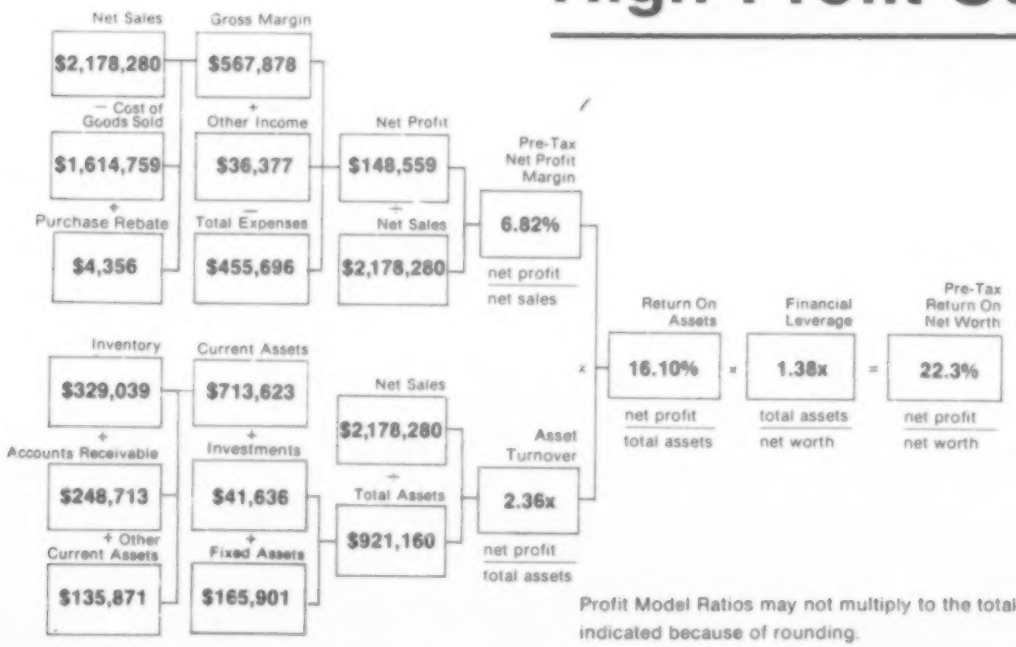
Fixed Assets — Divide Net Sales by Fixed Assets, a substantially lower than industry average ratio, indicates excessive investments resulting in idle capacity.

Leverage

The amount of borrowed funds has a number of major implications 1) creditors look to owner supplied funds to provide a margin of safety; 2) by raising funds through debt, owners gain the benefit of maintaining control of the firm with a limited investment and 3) if the firm earns more on borrowed funds than it pays in interest, return to owners is magnified.

Presented below is the Strategic Profit Model for the High Profit Outlets category. Retailers interested in improving their performance should carefully review this model, as it represents the level of excellence achieved by industry leaders.

High-Profit Outlets



Profit Model Ratios may not multiply to the totals indicated because of rounding.

Departmental Sales

The Departmental Sales section of the Financial Report offers a variety of information for fourteen major departments carried in the hardline industry's retail outlets.

Departmental Contributions
Shown for each department are the percent of firms handling, the share of net sales, sales floor space, inventory, cost of goods sold and dollar productivity per square foot of sales area. These data are for **Handling Firms Only.** All outlets participating in the survey that do not carry a particular department were not included in the computation of the average data for that department.

As an example to help understand the meaning of the **Handling Firms Only** data, suppose the Lawn and Garden Department in the Financial Report shows 90% of the reporting outlets have a Lawn and Garden Department. The data shown for the Lawn and Garden Department are only for the 90% of the outlets who carry Lawn and Garden Equipment. Thus, **Handling Firms Only** data enable an operator to compare a specific department's data with the average of other operators who also carry that department.

The Financial Report also presents an **Average Outlet Profile.** This profile shows data for outlets handling all departments and allows a comparison of the relationships among departments within a single operation.

But what of an outlet that does not carry all the major departments? How can the relationships of only carried departments be compared to a total store industry average? The necessary data are contained in the Report — only a simple computation is required.

First, for each department carried, add the industry average percent of Net Sales. The sum of these percentages is then divided into each individual departmental percent. The resulting percentages are the **Average Outlet Profile** for a lumber/building material outlet carrying only these departments.

As an example, a lumber/building material outlet carries only four departments — Hardware, Hand Tools, Paint and Home Decorating and Lumber/Building Materials.

Assume The Financial Report indicates percent of Net Sales for handling firms for each department to be:

Hardware	15.0%
Hand Tools	10.0%
Paint & Home Decorating	20.0%
Lumber/Building Materials	65.0%

The total of these percents equals 110.0. Now divide the total (110.0%) into each of the individual department's percent:

Hardware	$\frac{15.0}{110.0}$	= 13.6%
Hand Tools	$\frac{10.0}{110.0}$	= 9.1%
Paint & Home Decorating	$\frac{20.0}{110.0}$	= 18.2%
Lumber/Building Materials	$\frac{65.0}{110.0}$	= 59.1%

The resulting percentages' total should equal 100.0% and are the **Average Outlet Profile** for an outlet handling only Hardware, Hand and Power Tools, Paint and Home Decorating, and Lumber/Building Materials. This same procedure can be followed to determine the Average Outlet Profile for the percent of sales floor space, inventory and cost of goods sold.

Productivity
There are a number of ways in which to evaluate departmental performance including margin, turnover, sales productivity and margin contribution. The table presented on the following page, examines these departmental evaluation criteria.

The first evaluative measure is departmental gross margin.

On the basis of margin alone, the following departments would be considered high performing departments: hardware, electrical supplies, and automotive supplies. Margin evaluations alone would indicate sporting goods and outdoor equipment to be below average performance.

An additional measure is the sales to inventory ratio. On the basis of this ratio alone, lumber and building materials highly exceed all the other department averages.

An excellent way for lumber/building material outlet operators to evaluate departmental performance is through the concept of gross margin return on inventory investment or GMROI. GMROI considers both margin and turnover. GMROI is computed by taking the margin percentage times the sales to inventory ratio. Below, GMROI is expressed as an index. Lawn and Garden's GMROI, for example, is 1.14 which means $1.14 in margin is returned for each $1.00 invested in lawn and garden inventory. GMROI of 1.14 is computed by taking margin (30.0%) times the sales to inventory ratio (3.8x), (30.0% x 3.8 x = 1.14). Resultant GMROI figures give lumber/building material outlet operators ways to measure departmental performance across diverse merchandise lines. Traditionally high margin, low turnover departments may be compared with traditional low margin, high turnover departments.

An additional evaluative measure shown on the next page is sales per square foot of sales area. Individual outlet operators may utilize other evaluations such as profit on sales or return on investment by department. Nearly all departmental evaluation methods rely on some type of inventory control system enabling operators to measure sales and purchases at least at the departmental level.

Departmental Contribution

Department	Handling Firms Only: % Handling	% of Net Sales*	% of Sales Floor	% of Inventory	$ Sales Per Sq. Ft. Sales Area	Average Store Profile: % of Net Sales	% of Sales Floor	% of Inventory
Hardware	100.0	9.6	17.7	11.5	138.64	9.6	17.7	11.5
Hand Tools	81.2	2.7	5.7	4.8	143.07	2.0	4.8	3.9
Power Tools & Accessories	72.3	2.5	6.5	4.2	144.61	1.7	4.9	3.2
Plumbing, Heating and Cooling	85.7	6.3	11.0	8.3	198.75	5.0	7.7	6.9
Electrical Supplies	84.8	4.4	11.1	6.5	177.62	3.4	8.2	5.3
Paint & Home Decorating	87.5	7.4	15.3	9.7	174.12	5.9	12.2	8.8
Lumber	100.0	32.6	10.2	23.0	769.24	32.6	10.2	23.0
Building Materials	100.0	33.3	21.4	28.6	606.85	33.3	21.4	28.6
Lawn & Garden	56.2	2.6	3.3	2.8	175.27	1.3	2.0	1.8
Housewares	19.6	3.2	8.3	2.0	92.33	.6	1.1	.4
Automotive Supplies	13.4	1.2	2.5	1.6	133.28	.1	.3	.2
Major Appliances & Home Entertainment	33.9	3.3	10.8	5.8	65.30	1.0	5.8	2.9
Sporting Goods & Outdoor Living	11.6	2.0	2.0	2.0	97.67	.2	.2	.2
Miscellaneous Goods	55.4	6.6	6.6	5.1	173.25	3.3	3.5	3.3
						100.0	100.0	100.0

*Includes inside sales area only.

Productivity

Department	Typical Store Profile: Gross Margin %	Sales To Inventory Ratio	GMROI
Hardware	33.6	3.4x	1.13
Hand Tools	31.4	4.0x	1.22
Power Tools & Accessories	25.4	3.8x	.94
Plumbing, Heating & Cooling	30.9	4.1x	1.24
Electrical Supplies	33.4	5.2x	1.72
Paint & Home Decorating	30.8	4.5x	1.34
Lumber	24.3	6.5x	1.56
Building Materials	28.7	7.1x	1.98
Lawn & Garden	27.2	5.0x	1.33
Housewares	23.4	2.3x	.52
Automotive Supplies	29.7	2.3x	.68
Major Appliances & Home Entertainment	27.6	2.6x	.69
Sporting Goods & Outdoor Living	28.0	2.6x	.73
Miscellaneous Goods	27.8	8.0x	2.16

The Computer Age In Retailing

A growing number of retailers are beginning to use computers for item-inventory control, and what they are finding will ultimately materially change the way many retailers operate their businesses.

The National Retail Hardware Association has been conducting research among a group of these computerized retailers for more than a year in an effort to determine the rate of sale of various items and to determine which items sell slowest.

Any retailers receiving this cost-of-doing business report who are on item-inventory control and who would like to participate in this major industry research project (on an entirely confidential basis) should contact Bob Vereen, Senior Vice President, National Retail Hardware Association to receive full details of the research plan.

What Has Been Learned So Far

With the cooperation of Triad Systems Corp., an initial group of some 36 retailers operating 48 stores were contacted and asked to supply complete information on their 1984 sales history and year-end inventories. Triad then used specialized computer programs to summarize the inventory data from these stores.

The stores represent all sections of the country, from small towns to major metro markets, and buy from a variety of wholesale sources.

Estimated sales volume per store during 1984 was $1.3 million, with an average year-end inventory of $315,167. On balance, it could be assumed that these stores are "better than average."

Product sales were classified by sales velocity: "A" items representing 70% of sales; "B" items the next 15%; "C" items the next 10%; "D" items the last 5%; and "X" items being those that had not sold even one piece in 12 months.

What was learned is disturbing. Items that did not sell even one piece in a year or which contributed only the last 5% of sales accounted for 43.2% of total inventory.

Of the important "A" items, those that account for 70% of their sales, inventory of these items was only 28.1% of the total. This indicated stores may have been out of stock on some of these "A" items while seriously overstocked on "D" items, and of course carrying far too many "X" items.

One should certainly begin to evaluate the stocking levels of slow-moving items. Those cooperating retailers which have been on computerized inventory control for more than a year already have begun either eliminating items or sharply reducing inventory levels of slower-selling items, thereby substantially increasing gross margin return on inventory (GMROI).

NRHA's analysis indicates that about 15% of one's item-inventory count will represent 70% of volume. It seems to be holding true regardless of department—tools, hardware, etc.

Further analysis of the initial data compiled by Triad for NRHA's research study indicates that the industry must do a better job of variable pricing, inasmuch as average margin on "A" items for the 48 reporting stores was 38.47% while margins on slow-moving "C" and "D" items was just a shade above 40%.

It is quite likely that most retailers may have some of their own "A" items priced too high in relation to competition, thereby fostering a high-priced image, and taking too low a markup on the slow-selling service items that they carry for customer convenience.

NRHA will be developing a new service, THE TURNOVER HANDBOOK, based on further analysis of this data, which will consist of generic listings of "A", "B", "C", and "D" items to help retailers improve their stockturns and GMROI. It is expected to be available early in 1986 and will be licensed for individual store use at a reasonable fee.

Further information can be obtained from any of the state and regional hardware associations affiliated with the National Retail Hardware Association, NRHA or Home Center Institute.

Bob Vereen, Senior Vice President
770 North High School Road
Indianapolis, Indiana 46224

Yes, I would be interested in further information about the Item-Inventory Control Research Project.

Please contact me at:

Name _____

Position _____

Firm _____

Address _____

City & State _____ *Zip* _____

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Pennsylvania and Atlantic Seaboard Hardware Association
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